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return to the mainland. Madame CHIANG on January 18 expressed to the local United Press representative the hope that the Nationalists would be back on the mainland in 1951. On January 29, in another exclusive interview with the same correspondent -- in which the Generalissimo participated -- she emphasized that timing and opportunity were vitally important in the counter-offensive and remarked: "Blows from outside and inside must come together. They must come soon and at the right time."

A degree of concreteness was given plans for recovery of continental China by such actions as setting up a "Mainland Operations Department" in the Ministry of National Defense to tighten liaison with mainland guerrillas; formation of a 150-member Executive Yuan Planning Committee, headed by the Prime Minister, to plan for reconstruction work in China; and the National Government's announcement of a land reform scheme, based on Dr. SUN Yat-sen's principle of "equality of land ownership." Chinese now living in Free China, Hong Kong and Macau with experience in fields such as civil and police affairs, public health, agriculture, labor affairs and cooperative enterprises were asked to register with the Ministry of Interior for eventual employment on the mainland. Presumably envisaging further use for their services, General J. L. HUANG, Deputy Commander-in-Chief of Combined Service Force and Secretary-General of O.M.E.A., invited Chinese interpreters who served with the Allied forces during the last war to attend a banquet at which was formed the "Alumni Association of the Interpreters' Training Class of the Former Military Affairs Committee". Developments such as these heightened public feeling that the time for a counter-attack was approaching.

Although during January the mood of Nationalist China was predominantly one of rising optimism and morale there were a few bad moments -- notably when the United States accepted the final United Nations cease-fire proposal. Its provision for a conference on Formosa and other Far Eastern problems, to be participated in by the Chinese Communists (but presumably not by the Chinese Nationalists), aroused no little alarm and protest in Taipei. The Foreign Minister declared: "The proposal for the participation of Chinese Communist representatives in the General Assembly's attempt to settle Far Eastern problems would be to sell out not only Free China and Korea but also the United Nations itself."

After the Chinese Communists' rejection of the last cease-fire proposal, local officials and editors warned the United States against further hope of making peace with the Chinese Communists and castigated Nehru, the British and Arab-Asian group

for delaying action in the United Nations on the United States resolution to brand the Peiping group as aggressors. Not only members of the United Nations were exasperated, but the organization itself was found a source of disenchantment. In this connection the Nationalist Government Spokesman recently stated that the Formosa question should be settled at the Japanese peace treaty conference -- not by the United Nations.

With March not far off -- when the heavy monsoon seas in the Formosa Strait subside -- thought was given to the possibility of a Communist attack on Formosa as well as to plans for a Nationalist invasion of the mainland. Reports of increased military activity in East China -- reinforcement of coastal garrisons and construction of airfields and highways -- Soviet transfers of former Japanese naval vessels to the Chinese Communists, aircraft over Shanghai and Canton, and the arrival in Canton of a number of Soviet advisers were disquieting. At the same time, however, there was evidence of Chinese Communist withdrawals from coastal areas and other preparations on their part more indicative of defensive than offensive intentions toward Free China. Massing of Red Chinese troops near the Indo-China border, further such troop movements in that direction from Central China, Soviet-Communist China-Vietminh military conferences at Nanning, construction of a Soviet submarine base on Hainan Island and the presence of Russian submarines in the South China Sea were reported; all suggested that Indo-China, rather than Formosa, might be the next object of a major Communist aggression.

An upward trend in gold and commodity prices in January (only in part attributable to the influence of the approaching Chinese New Year) pointed up the constant struggle to keep the island's economy in a reasonable state of balance. Suspension of gold sales through the Bank of Taiwan in late December 1950 was followed by a sharp rise in the price of gold, which jumped from NT\$495 a tael (1.2 ounces) on December 25 to NT\$800 on January 17. . . . despite official determination to hold the price to NT\$516 a tael. This upward spiraling of the price of gold, together with a rather general increase in commodity prices, evoked severe criticism in the Control Yuan and elsewhere against Provincial Finance Commissioner JEN and other officials associated with the new financial policy. By the end of January, however, the price of gold had declined to NT\$680 as a result of various measures -- particularly the Bank of Taiwan's daily sale of some \$50,000 in United States currency at prices slightly below the open market. With a view to checking ascending rice prices, the Provincial Food Bureau towards the latter part of the month began selling rationed quantities of rice at 95 percent of open market quotations.

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In short, although still harassed by many an economic problem and a possible attack from across the Strait, the leaders of Nationalist China on Formosa awaited hopefully further developments in America and in the world at large -- moderately confident that the march of events would bring them arms and allies for the reconquest of China.

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Second Secretary of Embassy

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